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Abstract

Why do levels of corporate social performance (CSP) differ so much across countries? We answer this question in an examination of CSP ratings of more than 2,600 companies from 36 countries. We find that firm characteristics explain very little of the variations in CSP ratings. In contrast, variations in country factors such as stages of economic development, culture, and institutions account for a significant proportion of variations in CSP ratings across countries. In particular, we find that CSP ratings are high in countries with high income-per-capita, strong civil liberties and political rights, and cultures oriented toward harmony and autonomy. Furthermore, we find that home country factors explain a smaller portion of the overall variations in CSP for multinationals and cross-listed firms than for non-multinationals and pure domestic firms, respectively.

1. Introduction

Why do levels of corporate social performance (CSP) differ so much across firms in different countries? This is the central question in our paper. We examine CSP ratings in a sample of more than 2,600 companies from 36 countries in the MSCI ESG Intangible Value Assessment (IVA) database. We find that country factors are much more important than firm characteristics in explaining the variations in CSP ratings. To the best of our knowledge, our paper is the first to show the relative importance of firm characteristics and country factors in CSP ratings.

Differences in median CSP ratings of companies across countries are striking. The median CSP rating of Finnish companies is 5 on a scale ranging from a low of 1 to a high of 7. In contrast, the median CSP rating of Chinese companies is 2. Why do countries matter so much for CSP ratings? We find that differences in stages of economic development explain some of the differences in median CSP ratings. Firms in developed countries, such as Finland, have higher CSP ratings than those from emerging countries, such as China. The median CSP rating among developed countries is 4, significantly higher than the median of 3 among emerging countries. However, differences in economic development do not account for all the differences in CSP ratings. For example, the median CSP rating of companies in Germany, France, and the U.K. is 5, whereas the median is only 3 in the U.S., Hong Kong, and Ireland. We observe considerable variations in CSP among emerging countries as well. The median CSP rating in Brazil and South Africa is 5, whereas it is 2 in Israel, Mexico and Turkey.

We find that country factors beyond economic development, such as institutions and culture, play important roles in explaining differences in CSP ratings among countries. In particular, we find that CSP ratings are high in countries whose laws encourage competition,

countries with strong civil liberties and political rights, and cultures oriented toward harmony and autonomy.

Social norms offer one example of institutions and the pressures they exert. American social norms frown on 'sin' companies associated with alcohol, tobacco, and gaming, and on the broader set of 'shunned' companies that also includes those associated with weapons, military hardware and nuclear operations. These social norms are reflected in the 'negative screens' of American socially responsible mutual funds that exclude stocks of sin and shunned companies. Hong and Kacperczyk (2009) find that norm-constrained American institutions, such as public pension plans, invest significantly less in sin stocks than conventional mutual funds and hedge funds that are less constrained.

Culture also influences financial choices that affect CSP. Guiso et al. (2008) define culture as "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." People from the same culture share beliefs and values that influence their financial choices. Stulz and Williamson (2003) argue that culture influences financial choices because culture determines the values that are predominant in a country, influencing its institutions and resource allocation. Ahern et al. (2012) find fewer cross-border mergers between countries that are more culturally distant. Giannetti and Yafeh (2012) find that borrowers receive smaller loans at higher interest rates from culturally distant lead banks than from culturally close lead banks. Moreover, culturally distant lead banks are more likely to require third-party guarantees.

Globalization could reduce the importance of country factors for CSP by providing firms with access to financial markets and institutions of other countries. U.S. institutions affect corporate social responsibility (CSR) levels of non-U.S. firms that cross-list in the U.S. markets.

Boubakri et al (2016) find that CSR increases after cross-listing in U.S. markets, and decreases after delisting from U.S. markets. El Ghoul et al. (2016) show that CSR is more positively related to firm value in countries with weaker market institutions. We find that in our sample, country dummies explain a smaller portion of the overall variations in CSP for multinationals and cross-listed firms than for non-multinationals and pure domestic firms, respectively.

Our study contributes to the fast growing literature on corporate social performance, especially studies that explore the determinants of CSP ratings (e.g., McWilliams and Siegel, 2001; Campbell, 2007). It is also related to Ioannou and Serafeim's (2012) but is different in two important ways. First, Ioannou and Serafeim (2012) examine the impact of country institutions on CSP, using firm characteristics as controls. They do not examine the relative importance of country factors and firm characteristics in determining CSP, which is an important part of our study. Our paper complements theirs by offering evidence on the relative importance of country factors and firm characteristics in determining the levels of CSP.

Second, we argue that stages of economic development play an important role in explaining variations in country CSP, and find a very strong association between countries' CSP ratings and their stages of economic development, measured by income-per-capita. Indeed, many country factors such as the cultural dimensions of individualism and power distance, the political characteristics of corruption and competition, and the education and labor system characteristics of union density and availability of skilled labor are highly correlated with stages of economic development. We follow Djankov et al. (2008) in controlling for income-per-capita when analyzing the association of institutional and culture factors with CSP. Ioannou and Serafeim (2012) exclude stages of economic development from their analysis based on a study by Chapple and Moon (2005) who "find that cross-county CSP variation cannot be explained by the stage of

economic development." Chapple and Moon (2005), however, include only 50 companies in seven Asian countries, India, Indonesia, Malaysia, the Philippines, South Korea, Singapore and Thailand. All, with the exception of Singapore, are emerging countries, presenting too little variability in levels of economic development to provide reliable association between economic development and CSP.

Our study is also related to Doidge et al.'s (2007) study of corporate governance across countries. They find that country factors explain much more of the variance in corporate governance than firm characteristics. Similarly, we find that variations in company characteristics such as ratios of R&D expenditures to sales, ratios of market value to book value, and rates of return on assets explain little of the variations in CSP ratings across companies in different countries. Instead, variations in country factors including culture, institutions, and levels of economic development, explain much of variations in CSP ratings. Corporate governance is one aspect of our overall CSP measure, and we show that our results hold for corporate governance as well as for other aspects of CSP that are not related to corporate governance.

The paper proceeds as follows: In the next section, we discuss companies' choice of CSP levels. In section 3, we develop testable hypotheses. We describe our sample in section 4 and summarize the empirical results in section 5. Section 6 provides additional robustness checks, and section 7 concludes.

2. Companies' choice of CSP levels

Corporate managers balance the benefits and costs as they choose CSP levels. These benefits and costs vary from country to country such as by culture, institutions, and stages of

economic development. Campbell (2007) argues that institutional factors can either enhance CSP or inhibit it. These factors include public and private regulations, non-governmental and other independent organizations that monitor corporate actions, institutionalized norms of appropriate corporate behavior, associations among corporations, and organized dialogues among corporations and their stakeholders. Country factors matter because they affect the costs of investing in CSP as well as the benefits firms derive from such investments. Campbell (2007) writes that "corporations will be more likely to act in socially responsible ways if there are strong and well-enforced state regulations in place to ensure such behavior."

Inducements and constraints on CSP vary from country to country, and investments that increase CSP vary with them. Ioannou and Serafeim (2012) note that German automakers Daimler and BMW maintain considerably higher CSP levels than Japanese automakers Daihatsu and Kawasaki. The median CSP rating of German companies in our sample is 5, whereas that of Japanese companies is 4. Ioannou and Serafeim (2012) attribute the difference in CSP levels to differences between Germany and Japan in politics, labor and education, and financial and cultural institutions. For example, Japanese laws and regulations promote competition among companies more than German laws and regulations, constraining the profit margins of Japanese companies and limiting their ability to undertake investments that enhance CSP. Corruption is higher in Japan than in Germany, reducing pressure on Japanese companies to undertake investments that enhance CSP.

Low cost of capital enhances corporate financial performance and motivates companies to undertake investments. Investments in CSP can enhance corporate financial performance if they lower companies' cost of capital. Consistent with this idea, El Ghoul et al. (2011) find that

U.S. companies with low CSP ratings such as those in the tobacco and nuclear power industries are burdened by high cost of capital.

Differences in cost of capital are related to differences in risk. Oikonomou et al. (2012) find that high CSP ratings are associated with low systematic risk, and this negative relation is especially strong among companies at the low end of CSP. Bouslah et al. (2013) find that risk is high when concerns are raised about companies' employee relations, diversity, and corporate governance. Goss and Roberts (2011) find that companies with greater CSP concerns pay 7–18 basis points more for loans than other companies. Humphrey et al. (2012), however, find no difference between the risk-adjusted financial performance of U.K. companies with high CSP and low CSP ratings, and no difference in their levels of unsystematic risk.

There is mixed evidence on the association between CSP and corporate financial performance. Russo and Fouts (1997) and Guenster et al. (2011) find that high CSP is associated with better corporate financial performance. A few recent studies offer similar evidence. For example, Cheng et al. (2014) find that better stakeholder engagement and transparency reduce capital constraints. Moreover, companies with higher CSP face significantly lower capital constraints. Eccles et al. (2014) find that corporations that voluntarily adopted sustainability policies exhibit distinct organizational processes and have better accounting performance and stock returns. Flammer (2015) examines CSP proposals that pass or fail by small vote margins, and finds that adoption of such proposals leads to positive announcement returns and superior accounting performance.

There are, however, both theoretical rationales and empirical evidence indicating that increased CSP does not increase corporate financial performance without limit. Otherwise, we would have seen all companies undertake investments that enhance CSP without limit. Increases

in CSP beyond some optimal level degrade corporate financial performance rather than enhance it. Managers aiming to maximize the value of their companies invest in projects that enhance CSP to a level where the marginal benefits equal marginal costs. Kim and Statman (2012) find that corporate financial performance increases with CSP up to a point but diminishes beyond that point, consistent with the view that managers increase CSP when it enhances corporate financial performance but decrease it when it diminishes corporate financial performance. Specifically they find that increases in CSP ratings are followed by increases in earnings and valuations, yet decreases in CSP ratings are also followed by increases in earnings and valuations, consistent with the hypothesis that managers adjust CSP ratings up or down to maximize earnings and valuations.

Further evidence comes from Hong et al. (2012) who show that companies increase CSP levels only when they do well in the sense of having financial slack. Hong et al. (2012) model companies' optimal CSP-enhancing investments in the presence of financial constraints, and find that less-constrained companies engage in more CSP-enhancing investments. Using the Internet bubble of 1996-2000 as a quasi-experiment, they establish that causality goes from financial constraints to CSP levels. Moreover, they find that CSP is more sensitive to financial constraints than capital expenditure or R&D spending.

To better understand how country factors may affect firms' choice of CSP investment, we present a simple model to illustrate the tradeoffs firms face. We consider a model of a firm searching for the optimal level of investment in CSP, the level that maximizes its value. It is a one-period model in which the firm maximizes valuation by maximizing net profit during the period. [1]

[1] For simplicity, we assume a zero discount rate. A different discount rate will scale the profit function by a constant, leaving the analysis unchanged.

The company has an investment opportunity that requires a capital investment, *K*, and an investment in corporate social performance, *CSP*. The company's output is governed by its production function, *f(K, aCSP)*, where *f(K, aCSP)* is a neoclassical production function with $f'_{CSP} > 0, f''_{CSP} < 0$. The parameter *a* captures the benefit firms derive from investing in *CSP* on the production output and it varies across countries. For example, the value people associate with clean environment and safe working conditions is lower in countries where people are struggling to meet the basic needs for food and shelter. Therefore, *a* is low in countries with low economic development.

Companies can either choose to invest in CSP to the level necessary to meet regulatory standards, denoted as $\overline{CSP}$, or invest less than that level by circumventing regulatory standards, such as lobbying or outright bribery. Therefore the total cost of CSP investment has two components: the direct cost of investing in CSP (CSP) and the cost of circumventing CSP ($0.5b(\overline{CSP} - CSP)^2$). To simplify the analysis, we assume that the unit cost of CSP investment is one dollar, and that $\overline{CSP}$ is the same in all countries. The parameter *b* captures the cost of circumvention per unit of CSP, and $b > 0$. The magnitude of *b* depends on country factors such as economic development, corruption, civil liberties and political rights, and cultural norms. For example, the cost of bribery is lower in countries with high corruption than in countries with low corruption, therefore *b* is low in countries with high corruption.

The firm chooses the level of CSP to maximize the following net profit function:

$$\Pi = f(K, aCSP) - K - [CSP + 0.5b(\overline{CSP} - CSP)^2] \quad (1)$$

Taking the first-order condition, we can derive the optimal level of CSP, denoted by *CSP**, as:

$$CSP^* = \overline{CSP} - \frac{1}{b}(1 - af'_{CSP^*})$$

(2)

where $\frac{1}{b}(1 - af'_{CSP^*})$ is the optimal amount of CSP circumvented, which depends both on the benefit of improving CSP and the cost of circumventing CSP.

Taking the derivative of equation (2) with respect to *a* and *b* respectively, and we get

$$\frac{\partial CSR^*}{\partial a} = \frac{1}{b} f'_{CSP^*} \quad (3)$$

$$\frac{\partial CSR^*}{\partial b} = \frac{1}{b^2}(1 - af'_{CSP^*}) \quad (4)$$

Therefore we have $\frac{\partial CSP^*}{\partial a} \geq 0$ and $\frac{\partial CSP^*}{\partial b} \geq 0$.[2] This leads to the prediction that CSP^* increases with *a* and *b*, suggesting that the optimal level of CSP is relatively high in countries where the benefit of investing in CSP is high and the cost of circumvention is high.

3. Hypotheses

In this section, we discuss how country factors such as economic development, political systems, and culture affect the costs and benefits of investments in CSP and develop testable hypotheses.

3.1 Economic development

Consider a hierarchy of human needs. Basic needs, such as food and shelter, precede higher needs, such as clean air and water. Seale et al. (2003) find that people in low-income countries spend a greater proportion of income on basics such as food than those in high-income countries. This difference does not occur because the desires of people in low-income countries to satisfy upper needs are lower than in high-income countries, but because the resources

[2] It is reasonable to assume that $af'_{CSP} \leq 1$ as value-maximizing companies would not invest in CSP to a level where the marginal benefits (af'_{CSP}) exceeds the marginal cost, which is 1 by assumption.

available to satisfy upper needs in low-income countries are lower than that in developed countries.

CSP metrics capture mostly upper needs, such as clean environment, safe working conditions, and absence of child labor. Resources for such needs are limited in countries with lower levels of economic development. Zheng et al. (2011) find that the demand for clean air in China increased with income. Prices of houses are high in Chinese cities where ambient pollution levels are low. Finney et al. (2011) find that higher incomes lead people to migrate to areas of higher air quality, exacerbating segregation by income. This leads to our hypothesis on economic development*:*

Hypothesis 1: CSP is high in countries where the level of economic development is high.

3.2 Political systems

We examine two factors associated with the political systems of a country – corruption, and civil liberty and political rights. These factors determines the cost of circumvention CSP in a country, therefore play an important role in firms' decisions on circumventing the regulatory CSP standards through activities such as lobbying or outright bribery.

3.2.1. Corruption:

According to Transparency International, corruption is "the misuse of public power for private benefit." Corruption can take on many forms, ranging from companies making political contributions to outright bribery. Politicians and donors routinely deny links between contributions and legislative benefits, yet links exist. The Wall Street Journal (2001) quotes James Harless, a board member of Massey Energy, a coal mining company, saying: "We were looking for friends and we found one in George W. Bush." Paybacks (2002), a report by Earth-justice and Public Campaign, states that Harless and his family contributed $60,650 to the

Republican National Campaign and the Bush 2000 campaign since 1999.[3] According to the report, payback to the mining industry included "eliminating environmental protections to allow coal and hardrock mining companies to use rivers, streams, wetlands, and other waters as waste dumps and threaten communities and the environment with new dangerous mines".

Existing research offer much empirical evidence that corporate benefits from political connections. Cooper et al. (2010) find that a portfolio of stocks of companies weighted by the number of candidates they have supported earned a 2.4% annual abnormal return. Faccio (2006) documents a greater than 2% increase in firm value when officers or large shareholders of a company enter politics. Roberts (1990) finds that the value of companies contributing to the campaigns of U.S. senator Henry Jackson declined with his death. And Fisman (2001) finds that the value of Indonesian companies connected to the Suharto family declined in parallel to the declining health of President Suharto.

Companies employ corruption to circumvent CSP if the cost of doing so is lower than the cost of investing in CSP to the level that meets regulatory requirement. The cost of corruption is low in countries where corruption is rampant and punishment is light. This leads to our hypothesis on corruption:

Hypothesis 2a: CSP is low in countries where corruption is high.

3.2.2. Civil liberties and political rights:

Companies face scrutiny and pressure to increase CSP from civil society, non-governmental organizations (NGOs), and activist groups, amplified by the media. For example, Wal-Mart is scrutinized on labor relation, described by Bhatnagar (2004), Lobel (2007) and Tilly

[3] http://earthjustice.org/news/press/2002/bush-administration-anti-environmental-policies-linked-to-corporate-campaign-contributions

(2007), and Nike is scrutinized on working conditions at factories of suppliers in emerging countries, described by Greenberg and Knight (2004) and The Economist (2012).

Companies regularly resort to deflection by 'green-washing' when pressure mounts, disclosing environmentally friendly programs to deflect attention from environmentally unfriendly activities (Marquis and Toffel, 2012). For example, Morris and King (2010) find that companies increase their publicity of social activities to deflect attention from boycotts.

Civil society can counter deflection and press companies toward CSP when civil liberties and political rights are strong, enabling society members to express their concerns and mobilize for activism through organizations such as NGOs. Lyon and Maxwell (2011) find that the damage done to companies' reputations by revelations of misrepresentation of activities detrimental to the environment is greater than the damage to reputation caused by the actual activities. Steinberg (2002) notes that the "challenges of sustained collective action are compounded when citizens fear for their safety or operate in a political environment where autonomous civic organization and the expression of dissenting views are considered a threat by state authorities." This leads to our hypothesis on civil liberties and political rights:

Hypothesis 2b: CSP is low in countries with weak civil liberties and political rights.

3.3 Culture

Culture is a complex abstract concept. To capture culture differences across countries, some studies have used cultural variables that are quite general, such as the dominant religion or the language spoken in a country, to examine the effects of culture on economic decisions (e.g., La Porta et al., 1999; Stulz and Williamson, 2003). We use a culture framework that is more structured – the system of values and beliefs that underlies more specific formal institutions and

informal ones (North, 1990; Williamson, 2000; Siegel, Licht, and Schwartz, 2013). Our culture variables come from Schwartz (1999) and Hofstede (1980, 2001).

3.3.1. Harmony:

Schwartz (1999) identifies *Harmony* as a cultural dimension that relates people to the natural and social world. Harmony is "a cultural emphasis on fitting harmoniously into the environment (unity with nature, protecting the environment, world of beauty)." People in harmonious societies appreciate the natural and social environment and try to fit into it rather than to change or exploit it. *Mastery*, at the opposite end from *Harmony*, encourages active self-assertion in order to master, direct, and change the natural and social environment to attain group or personal goals. Cultures of harmony constrain companies from stinting on CSP. This leads to our hypothesis on harmony*:*

Hypothesis 3a: CSP is high in harmonious countries.

3.3.2. Egalitarianism:

Egalitarian cultures "induce societal members to recognize one another as moral equals who share basic interests as human beings. People are socialized to internalize a commitment to cooperate and to feel concern for everyone's welfare. People are expected to act for the benefit of others as a matter of choice" (Schwartz, 1999). *Hierarchy* is at the opposite end from *egalitarianism*. Schwartz (1999) writes that hierarchy cultures "rely on hierarchical systems of ascribed roles to insure responsible, productive behavior. People in hierarchical cultures accept unequal distribution of power, roles, and resources as legitimate and even desirable. They accept hierarchical distribution of roles, comply with the obligations and rules attached to their roles, show deference to superiors, and expect deference from subordinates. People in egalitarian cultures constrain companies by demanding companies to maintain high CSP, treat their

employees well and, more generally, promote and protect human rights. This lead to our hypothesis on egalitarianism*:*

Hypothesis 3b: CSP is high in egalitarian countries.

3.3.3. Autonomy

Our third cultural dimension concerns the nature of the relation between individuals and others in society. *Autonomy* is at one end of this dimension. Schwartz (1999) distinguishes between two types: intellectual autonomy, which **"**encourages individuals to pursue their own ideas and intellectual directions independently," and affective autonomy, which "encourages individuals to pursue affectively positive experience for themselves." *Embeddedness* is at the other end of this dimension. Schwartz writes that embedded cultures emphasize maintaining the status quo and restraining actions that might disrupt the traditional order.

Autonomy and *Embeddedness* are related to *Individualism* and *Collectivism* in that all address relationship between one person and others. Yet their notions of others differ, and the difference matters. Hofstede (1980, 2001) defines *Individualism* as "a preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only." At the opposite end is *Collectivism* which, in Hofstede's words, "represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty."

Autonomy culture places each person at the center but does not distinguish the others of immediate family or extended family from the others of humanity. In contrast, the others in *Individualism* culture are anyone outside one's immediate family, and others in *Collectivism* culture are anyone outside one's extended family and friends.

We expect people from *autonomy* cultures to press for CSP more than those from *embeddedness* cultures that emphasize maintaining the status quo and the traditional order. Consider global warming. People in *autonomy* cultures are likely to care about the harm global warming might do to them as individuals, but they are also likely to care about the harm it might do to humanity. Moreover, they are likely ready to challenge the status quo and traditional order by pressing companies to increase CSP to mitigate global warming. This leads to our hypothesis on autonomy*:*

Hypothesis 3c: CSP is high in countries where autonomy is high.

3.3.4. Power Distance

Our fourth cultural dimension is *Power Distance*, also identified by Hofstede (1980). Power distance, according to Hofstede, "expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of power distance accept a hierarchical order in which everybody has a place and needs no further justification. In societies with low power distance, people strive to equalize the distribution of power and demand justification for inequalities of power."

High power distance allows managers to pursue their own interests and those of their shareholders with little regard for other stakeholders and the broader society. High power distance is also associated with high corruption (Getz and Volkema, 2001; Davis and Ruhe, 2003), suggesting that in countries where power distance is high corporate managers are more likely to exploit stakeholders and the broader society than support them. This leads to our hypothesis on power distance*:*

Hypothesis 3d: CSP is high in countries where power distance is low.

4. Sample and Data Description

We obtain environmental, social, and governance (ESG) ratings of companies from the MSCI ESG Intangible Value Assessment (IVA) database. MSCI identifies five ESG key issues, defined as *"an environmental and/or social externality that has the potential to become internalized by the industry or the company."* Each key issue is assigned a weight, determined by its importance in the industry. Information on these key issues is collected primarily from public sources and evaluated. Each company is assigned a score for each of the key issues, and the overall score is determined by the weighted average of the key issue scores. The scores are then industry-adjusted by normalizing the overall score to the industry peer set. Based on the industry-adjusted scores, each company is then assigned a letter rating ranging from the best (AAA) to the worst (CCC). We use the overall IVA rating as our main measure of CSP, and higher ratings indicate better industry-adjusted CSP. We convert letter ratings into numerical ratings where 1 corresponds to CCC and 7 corresponds to AAA.

Our MSCI IVA data include 2,632 companies during 2006 through 2011, representing approximately 96% of the market cap of the MSCI World Index. To ascertain that our results are not dependent on countries with very small number of companies, we exclude countries with fewer than five companies in the MSCI IVA data. Our results remain qualitatively the same when we exclude countries with fewer than ten companies.

We obtain country data from several sources. We use *Income-per-capita* in 2010 from the World Bank to measure levels of economic development. The 2010 Corruption Perception Index by Transparency International is a measure of *absence of corruption.* Each year, Transparency International ranks countries on a scale from zero of highly corrupt countries to 10 of highly

clean countries. Our measure of *lack of civil liberties & political rights* is from the World 2010 report of Freedom House. Freedom House assigns each country a rating on a scale from 1 (the highest level of civil liberties or political rights) to 7 (the lowest level).

Our culture dimensions come from two sources. *Individualism* and *Power distance* scores are from Hofstede (1980, 2001). *Harmony*, *Egalitarianism*, *Intellectual Autonomy*, and *Affective Autonomy* scores are from Schwartz (1999).[4] Higher score indicates cultures more oriented towards greater individualism, power distance, harmony, egalitarianism, and autonomy.

In addition, we control for the extent of legal protection a country offers to shareholders. La Porta et al. (1998) argue that shareholders' legal protection matters for companies' financing and investment decisions. We use the anti-self-dealing index developed by Djankov et al. (2008) as our measure of shareholder protection. We also control for a set of firm characteristics that are known to affect CSP. Data on these characteristics come from the Worldscope database. Hong et al. (2012) document that financially constrained companies invest less in CSP than less constrained companies. We capture levels of financial constraints with three proxies: 1) company size, measured by the natural logarithm of total assets; 2) the amount of financial slack, measured by the ratio of cash to total assets; and 3) the magnitude of cash flows, measured by the ratio of operating cash flow to total assets.

Firms may engage in CSP strategically to differentiate their products (McWilliams and Siegel, 2001). We use the ratio of R&D expenditures to sales as a proxy for product differentiation. Firms with profitable investment opportunities might invest less in CSP as they have attractive alternatives for their funds. We use market-to-book ratio (*M/B*) to proxy for investment opportunities. We also control for firm financial performance, measured by returns

[4] Although using Hofstede's and Schwartz's cultural framework may raise the concern that the data are outdated, Zheng, Ghoul, Guedhami, and Kwok (2012) provide a detailed discussion on why these measures retain their validity over a long period.

on assets (*ROA*). We use closely-held shares to proxy for firms' ownership structure. Closely-held shares are the fraction of shares held by insiders (or by the ten largest shareholders in Japan). Finally, cross-listed firms are able to borrow institutions from the host countries, possibly weakening the effects of the institutions of their home countries. We use American Depository Receipt (*ADR*) as an indicator of cross listing. *ADR* equals one if the company has a traded American Depository Receipt and zero otherwise.

Our final sample includes 6,739 firm-year observations from 2,632 unique firms in 36 countries. Table 1 reports the number of firms, the number of firm-year observations, and the basic statistics on the overall CSP ratings for each country. The median number of firms in a country is 24, but our sample includes many more firms in developed than in emerging countries.[5] The U.S. has the largest number of firms (762), followed by Japan (358) and the U.K. (341).

There is considerable variation in CSP ratings across countries but ratings are generally higher in developed countries than in emerging countries. The mean CSP rating for companies in developed countries is 4.03, statistically significantly higher than the 3.42 mean of companies in emerging countries. While not reported, our results are unchanged if we use median CSP ratings in place of mean CSP ratings.

Table 2 presents the distribution of companies across industries. Our sample spans a wide range of industries. The top five industries are banks, retail, real estate, metals & mining, and construction, representing 6.87%, 6.25%, 5.71%, 4.76%, and 4.24 of our sample, respectively.

Table 3 Panel A presents descriptive statistics of our sample. The mean overall CSP rating in our sample is 3.99, and the median is 4. To minimize the potential impact of large

[5] We classify countries into developed and emerging categories following the World Bank definition. Emerging countries are low-income and middle-income economies based on gross national income per capita.

outliers, we winsorize all continuous firm-level variables at the top and bottom 1%. A median firm in our sample has total assets of 2.81 billion, a ROA of 24%, an M/B ratio of 1.79, and a cash-to-assets ratio of 0.3. Approximately 23% of firms in our sample have traded ADRs.

We also report statistics on country-median of overall CSP ratings. For each country, we compute its country-median as the median value of the corresponding ratings across all firm-years in that country. The country-median overall CSP rating across countries has a mean of 3.83, with a maximum of 5 and a minimum of 2. The country-median CSP is 5 in eleven countries, including France, Finland, Sweden, and the UK. All but one (South Africa) are developed countries. Four emerging countries, China, Israel, Mexico, and Turkey, rank the lowest, with a country median of 2. The median rating for the United States is 3. The average of the country-median overall CSP rating is 4.29 among developed countries, significantly higher than the 3.2 average among emerging countries. These CSP ratings suggest that while levels of economic development plays an important role in explaining cross-country variations in CSP, other factors matter as well.

Table 3 also presents our measures of economic development, country institutions, and culture. Countries in our sample have a median income-per-capita of $33,974 (10.43 on natural log scale), with a minimum of $1,160 (India) and a maximum of $84,718 (Norway). Other country factors also exhibit significant variations. For example, Denmark, New Zealand, and Singapore rank highest on *Absence of corruption*, with a score of 9.3, and the United States ranks 22nd, with a score of 7.1. Corruption is highest in Russia, 2.1, Indonesia, 2.8, and Mexico, 3.1.

Table 3 Panel B shows that country-medians of overall CSP ratings are significantly correlated with all country factors. The correlation coefficients are large and statistically significant at the 5% level, mostly at 1% level. The absolute values of the correlation coefficients

range from a low of 0.46 between *IVA* and *Absence of corruption* to a high of 0.64 between IVA and *Lack of civil liberties & political rights* as well as IVA and *Affective autonomy*.

Median CSP ratings are high in countries with high levels of economic development, measured by the natural logarithm of income-per-capita, *Ln(Income-per-capita)*. The correlation between the overall IVA ratings and *Ln(Income-per-capita)* is 0.56, statistically significant at 1% level. In general, median CSP ratings are also high in countries with low levels of corruption, strong civil liberties and political rights, and weak shareholder protection. Moreover, median CSP ratings are highly correlated with all of our cultural factors. In particular, median CSP ratings tend to be high in countries with cultures oriented towards harmony, egalitarianism, autonomy, individualism, and low power distance.

Country factors are correlated with each other. The level of economic development is highly correlated with all other country factors. The absolute values of the correlation coefficients range from 0.29 between *Ln(Income-per-capita)* and *Anti-self-dealing index* to 0.80 between *Ln(Income-per-capita)* and *Absence of corruption*. Correlations among measures of country institutions and culture are also high. For example, the correlation between *Absence of corruption* and *Power distance* is -0.68, and the correlation between *Lack of civil liberty and political right* and *Egalitarianism* is -0.77.

5. Empirical Results

5.1 What determines CSP ratings? Company characteristics and country factors

We begin with a panel regression examining the determinants of CSP ratings across companies from all countries.

$$CSP_{jkt} = \gamma_0 + \gamma_1 X_{j,t-1} + \phi_i + \eta_t + \lambda_k + \varepsilon_{jkt} \qquad (1)$$

CSP_{jkt} is the CSP rating of company *j* of country *k* at time *t*. $X_{j,t-1}$ is a vector of company characteristics at the beginning of year t, including size (*Ln(Assets)*), financial slack (*Cash/Assets*), operating cash flows (*Op. CF/Assets*), product differentiation (*R&D expenses*), investment opportunities (*M/B*), profitability (*ROA*), leverage (*Leverage*), ownership structure (*Closely-held shares*), and whether the firm has a traded ADR (*ADR*). All regressions include year- and industry-fixed effects (η_t, ϕ_i) to control for time trends and potential heterogeneity across industries. In some model specifications we also include country fixed effects (λ_k). We cluster the standard errors by firm to address any potential correlations in the residuals over time.

We report the regression results for the overall CSP ratings (*Overall IVA ratings*) in Table 4 Panel A. In column (1), we include only company characteristics and find that variation in company characteristics explains only 6.7% of variation in CSP ratings. In column (2), we include only country fixed effects while excluding all company characteristics. Using country fixed effects yields an upper bound of the effects of all possible country factors, including those that are unobservable or not considered in our analysis. Comparing columns (1) and (2), we find that countries account for 13.4% the total variations in overall CSP ratings, twice as much as what firm characteristics can explain (2.0=0.134/0.067). In column 3, we include both company characteristics and country fixed effects, and find that together they account for 18.6% of the total variations in CSP ratings. Adding country dummies to the set of firm characteristics significantly improves the overall explanatory power of our model.

Consistent with Hong et al. (2012), we find that larger and more profitable companies with higher cash levels have higher CSP ratings. The coefficient on R&D expenses is positive although not statistically significant. The positive coefficient of R&D expenses is consistent with

McWilliams and Siegel (2001) who argue that CSP serves as a differentiation strategy. On average, CSP is higher among companies that have traded ADRs and higher leverage.

Corporate governance is a commonly included subcategory of CSP. For example, the term ESG refers to environmental, social and governance issues, and our CSP data also include measures of corporate governance. Doidge et al. (2007) show that country factors explain far more of the variance of corporate governance than company characteristics. One potential concern of our result is that we may be capturing the impact of country factors in corporate governance rather than the broader CSP.

To address this concern, we exclude corporate governance and consider the other two CSP components, environmental and social ratings. The Environmental rating is based on key issues related to protecting the environment, such as carbon emissions or biodiversity and land use. The Social rating is based on key issues related to social issues, such as labor management or privacy and data security. The means of the environmental and social ratings are 3.87 and 4.04, respectively. Using the average of the environmental and the social ratings as the dependent variable, we present the regression results in columns (4)-(6) of Table 4 Panel A. We continue to find that countries are much more important than companies in determining the non-corporate-governance aspects of CSP.

In Panel B of Table 4, we also examine the three CSP components separately. The dependent variable is corporate governance in columns (1)-(3), environmental ratings in in columns (4)-(6), and social ratings in columns (7)-(9), respectively. Consistent with Doidge et al. (2007), we find that variation in country factors account for more of variation in corporate governance than company characteristics. In addition, countries are much more important than companies in determining environmental and social ratings. This is especially true for social

ratings, where the explanatory power attributed by country factors is 2.13 (=0.115/0.054) times of that attributed by firm characteristics.

5.2 Why do country factors matter so much?

As discussed in Section 3, the optimal level of CSP for a value-maximizing firm depends on both the benefits firms derive from investing in CSP and the costs of circumvention. Countries matter because both benefits and costs are shaped, to a large extent, by institutions in a country as well as by values and belief systems deeply rooted in the society. Our comparative statics show that the optimal level of CSP is relatively high in countries where the benefits of investing in CSP are high and the costs of circumvention are high.

In this section, we test our earlier hypotheses about CSP and economic development, political systems, and culture to answer more fully the question of why country factors account for so much of the variation in CSP ratings, We measure the CSP of a country by the median of CSP ratings of all companies in that country. We focus on medians because they help overcome problems introduced by differences in the number of companies in each country and minimize potential distortions caused by outliers. Table 5 summarizes the results.

5.2.1 Economic development

Hypothesis 1 states that CSP ratings are higher in countries with higher economic development. Our findings in Table 5 Model (1) are consistent with this hypothesis. The coefficient of *Ln(income-per-capita)* is positive and statistically significant at the 1% level. An inter-quartile increase in income-per-capita, from the level of Russia to the level of Belgium, is associated with a 0.752 increase in country-median CSP ratings. The mean of country-median CSP ratings across countries is 3.83, implying that the association between CSP and income-per-capita is not only statistically significant but also economically large.

While variations in income-per-capita across countries account for 23.1% of variations in country-median CSP ratings, income-per-capita is a good predictor of country-median CSP ratings in some countries but not in others. Figure 1 plots country-median CSP ratings against *Ln(income-per-capita)*. The line presents predicted country-median CSP ratings corresponding to income-per-capita levels. Income-per-capita is a good predictor of country-median CSP ratings for Japan, Belgium, and Thailand, but not for China, France, Sweden, and the U.S., suggesting that factors other than levels of economic development play important roles in predicting country-median CSP ratings.

Table 3 Panel B shows that economic development is significantly correlated with all other country factors, making it difficult to disentangle the relation between CSP and economic development and the relation between CSP and other country factors such as corruption. While the direction of causality between economic development and other country factors is beyond the scope of our study, we control for income-per-capita to assess the relation between CSP and other country factors. We follow Djankov et al. (2008) by orthogonalizing each factor against *Ln(income-per-capita)* and use the orthogonalized factor to estimate the incremental association of that factor with CSP. For each factor, we present side-by-side results with the raw factor and the orthogonalized factor.

5.2.2 Political systems

Hypothesis 2a states that CSP is low in countries where corruption is high. In countries where corruption is rampant, companies find it cheaper to circumvent CSP than invest in CSP to meet regulatory requirement. Table 5 Model (2) shows that coefficient of raw *Absence of corruption* is positive and statistically significant at the 1% level when we regress country-median CSP ratings on raw *Absence of corruption*. This result is consistent with the hypothesis,

we find that the coefficient on the orthogonalized *Absence of corruption* is no longer statistically significant, probably due to the strong correlation between raw *Absence of corruption* and *Ln(income-per-capita)*. Table 3 shows that the two have a correlation coefficient of 0.8, indicating that corruption is prevalent in countries with low income-per-capita. This high correlation makes it difficult to distinguish the association between CSP and corruption from the association between CSP and income-per-capita.

Hypothesis 2b states that CSP is low in countries where civil liberties and political rights are weak. Our results in Table 5 Model (3) are consistent with this hypothesis. We find that the coefficients of *Lack of civil liberties & political rights* are negative and statistically significant at 1% level for both the raw and the orthogonalized factor, suggesting countries with weak civil liberties and political rights exhibit lower CSP.

Half the countries, including the U.S. and many European countries, have perfect civil liberties and political rights scores according to Freedom House's 2010 annual survey. Their *Lack of civil liberties & political rights* is 1. The other half exhibits much variation, ranging from 1.5 in Japan and Italy to 6.5 in China.[6] In general, countries with higher income-per-capita enjoy stronger civil liberties and political rights (the correlation between the two is -0.76). An interquartile increase in *Lack of civil liberties & political rights*, equivalent to moving from the level in the U.S. (1) to the level in India or Mexico (2.5), is associated with a 0.50 decrease in the country-median CSP ratings, after accounting for differences in income-per-capita. Moreover, *Lack of civil liberties political rights* explains as much as 35.5% of the overall variations in country-median CSP ratings. Our findings are consistent with the notion that strong civil liberties

[6] Note that the scores of civil liberties and political rights from Transparency International are such that high scores indicate poor civil liberties and political rights. As such, the scores capture the *Lack of civil liberties political right*.

and political rights enable society members to express their concerns and press companies toward higher CSP.

5.2.3 Culture

Hypothesis 3a states that CSP is low in countries with low harmony. Our findings are consistent with this hypothesis. In Table 5 Model (4), the coefficient of *Harmony* is positive and statistically significant at the 5% level or better for both raw and orthogonalized *Harmony*. An interquartile increase in *Harmony*, as from the level in Indonesia to the level in Finland, is associated with an increase of 0.53 income-adjusted country-median CSP ratings. Furthermore, variations in *Harmony* explain 18.9% of the variations in country-median CSP ratings. Controlling for the effect of income-per-capita, variations in *Harmony* still account for 8.7% of variations in country-median CSP ratings. The low harmony scores of China and the U.S. may help explain their low income-adjusted country-median CSP ratings.

Hypothesis 3b states that CSP is high in egalitarian countries. Our findings in Table 5 Model (5) are somewhat consistent with this hypothesis. The coefficient of raw *Egalitarianism* is positive and statistically significant at 1% level, but the coefficient of orthogonalized *Egalitarianism* is not statistically significant.

Hypothesis 3c states that CSP is high in countries where people are autonomous. Our findings In Table 5 Model (6) and (7) are consistent with this hypothesis. For both *Intellectual Autonomy* and *Affective Autonomy*, we find that the coefficients of both raw and orthogonalized factor are positive and statistically significant. The association between CSP and autonomy is also economically large. An interquartile increase in *Intellectual Autonomy*, equivalent to moving from the level in South Korea to the level in the Netherlands, is associated with an increase of 0.65 in income-adjusted country-median CSP ratings. The corresponding increase in

income-adjusted country-median CSP ratings associated with an interquartile increase in *Affective autonomy* is 0.80.

Autonomy plays an important role in explaining the variations in country-median CSP ratings. Controlling for income-per-capita, variation in *Intellectual Autonomy* accounts for 6.9% of the variation in country-median CSP ratings, and variation in *Affective autonomy* accounts for 14.7% of the variation in country-median CSP ratings.

Hypothesis 3d states that CSP is high in countries where power distance is low. Our findings are generally consistent with this hypothesis. The coefficient of raw *Power distance* in Table 5 Model (8) is negative and statistically significant at the 1% level. The coefficient of orthogonalized *Power distance*, however, is no longer statistically significant.

5.3 CSP and all country factors

We find that economic development, political systems, and culture are associated with country-median CSP levels. Yet these country factors are highly correlated with one another, making it difficult to disentangle the effect of one from another. Still, we can estimate how much of the variation in country-median CSP ratings is accounted for by all country factors.

In Table 5 Model (9), we include all the country factors as independent variables in one regression where the dependent variable is country-median CSP ratings. While multicollinearity removes statistical significance from most coefficients, we see that variations in country factors altogether account for 49.1% of the variation in country-median CSP ratings.

In the last row of Table 5, we examine a much bigger set of country factors. The additional country factors come from Ioannou and Serafeim's (2012), who use a broader set of country factors, such as labor and education systems, competition, and leftist political ideology, to study the role of nation-level institutions on CSP. The addition of these factors does not add

explanatory power factors beyond Model (9). The adjusted R^2 is 0.463, suggesting that these factors altogether account for 46.3% of the variation in country-median CSP ratings.

6. Robustness

6.1 Multinationals

Some companies are multinationals, with operations in both their home country and host countries, while others operate almost exclusively in their home country. Ioannou and Serafeim (2012) note that multinationals may be influenced by institutions in both home-country and host-country. Campbell, Eden, and Miller (2012) find that distance from the home country is inversely related to the level of CSP of a multinational in a host country. This might imply that home-country institutions affect multinationals less than they affect non-multinationals.

We classify companies as multinationals if at least 10% of their assets are in host-countries. We obtain the ratio of host-country assets to total assets from Worldscope (data item 08736). These data are available for 5,090 company-year observations, among which 2,857 are multinationals and the remaining 2,233 are non-multinationals.

We rerun the panel regression of Table 4 separately for multinationals and non-multinationals, and present the results in Table 6. Columns (1)-(3) report regression coefficients of multinationals, and columns (4)-(6) report the coefficients of non-multinationals. We find that variation in home country factors is much more important than variation in firm characteristics in explaining the total variation in CSP for non-multinationals (2.30=0.154/0.067) than for multinationals (1.31=0.136/0.104), suggesting that home country factors do not play as an important role in determining CSP for multinationals as for non-multinationals.

6.2 Cross-listings

Financial globalization could reduce the importance of country factors for variations in CSP across countries. As Doidge et al. (2007) point out, cross-listing not only provides firms with access to foreign capital markets, reducing their dependence on the home countries, but also enables firms to "borrow" the institutions of the host country. Boubakri et al. (2016) find that cross-listed firms have better corporate social responsibility performance than their non-cross-listed domestic peers. We would expect home country to be less important for the determination of CSP for cross-listed firms than for their pure domestic peers.

In each sample year, we classify a firm as cross-listed if its common shares are listed on one or more foreign stock exchanges in addition to its domestic exchange in that year. Among 6,739 firm-year observations in our sample, 1,514 are cross-listed and 5,225 are not. We rerun the panel regression of Table 4 separately for cross-listed firms and non-cross-listed firms. Table 7 summarizes our results. Columns (1)-(3) report regression coefficients of cross-listed firms, and columns (4)-(6) report the coefficients of non-cross-listed firms. We find that for cross-listed firms, the explanatory power of home country factors in determining CSP levels is 1.6 (=0.157/0.098) times that of firm characteristics. In contrast, for non-cross-listed firms, the explanatory power of home country factors is 3.7 (=0.138/0.037) times that of firm characteristics, suggesting that home country factors are much more important for non-cross-listed firms than for cross-listed firms. Our results are consistent with the notion that financial globalization reduces the importance of home country by providing firms with access to the financial markets as well as the institutions of the host countries.

6.3 Alternative measure of CSP

We use the overall MSCI IVA rating as our main measure of CSP. MSCI assigns ratings for each company for each of the key issues, and the overall rating IVA are determined by the

weighted average of the key-issue ratings. Specifically, "analysts work with sector team leaders to make any necessary adjustments to the weightings in the model. Each key issue typically comprises 10-30% of the total IVA rating. The weightings take into account both the contribution of the industry, relative to all other industries, to the negative or positive impact on environment or society; and the timeline within which we expect that financial risk or opportunity for companies in the industry would be expected to materialize."

To check the robustness of our results, we construct an alternative IVA measure. Following Goss and Roberts (2011) and Ioannou and Serafeim (2012), we perform a principal components analysis (PCA) using all subcategories of CSP ratings. MSCI provides data on eight IVA subcategories in addition to the overall IVA rating. They include Strategic Governance, Human Capital, Stakeholder Capital, Products and Services, Emerging Markets, Environmental Risk, Environmental Management Capacity, and Environmental Opportunity.

We extract common components from the eight subcategories and combine them into a one-dimensional index of CSP. Using a single factor, instead of the eight subcategories individually, we increase the power of the regression tests by avoiding the problems arising from multicollinearity and minimizing measurement error.

Table 8 Panel A presents the results of the principal component analysis of the eight IVA subcategories. The alternative IVA measure, *IVA_PCA*, is the first component of the principal components analysis of the subcategories, which is a linear combination of the eight subcategories where more weight is given to those that reflect a company's CSP more accurately. The eigenvalue is 3.27, higher than one.

In Panel B and C of Table 8, we replicate the same analyses as in Table 4 and 5 using *IVA_PCA* as the main dependent variable. We continue to find that country factors account for

more of the variation in CSP ratings than company characteristics. In addition, economic development, institutional, and culture factors remain as important determinants of CSP ratings.

7. Conclusion

We find that country factors are much more important than firm characteristics in explaining the variations in CSP ratings. The differences in stages of economic development, measured by income-per-capita, explain some of the differences between CSP ratings among countries but other parts of differences are explained by differences in factors of culture and institutions. In particular, we find that CSP ratings are high in countries with high income-per-capita, strong civil liberties and political rights, and cultures oriented toward harmony and autonomy.

Country factors matter for CSP because they affect companies' costs of investing in CSP and the benefits companies derive from such investments. Corporations are likely to adjust their CSP levels as CSP inducements and constraints change, even if the changes are slow. Food is the most urgent need when income is low, but desire for clean water and air become increasingly pressing as income increases. The outcome of the 2015 United Nations Climate Change Conference testifies to that desire. Higher incomes also spur demands for greater civil liberties and political rights, which in turn are associated with higher CSP ratings.

Our study expands the previous literature and offers new evidence on the relative importance of firm characteristics and country factors in explaining CSP ratings. We show that country factors such as economic development, institutions, and culture are important determinants for corporate social performance. One caveat of our paper is that we do not

separately examine the impacts of CSP strengths and concerns due to data availability, and we leave this for future research.

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APPENDIX: Variable definitions

Corporate Social Performance	
Overall IVA rating	Overall CSP ratings ranging from 1 (MSCI rating CCC) to 7 (MSCI rating AAA) from MSCI
Average of environmental and social ratings	Average of environmental and social ratings from MSCI
Corporate governance	Ratings based on traditional governance concerns such as board independence, board diversity, compensation practices, controversies involving executive compensation and governance from MSCI
Environmental rating	Ratings based on key issues related to protecting the environment from MSCI
Social rating	Ratings based on key issues related to social issues from MSCI
Country Factors	
Income-per-capita	GNP per capita from the World Bank
Absence of corruption	2010 Corruption Perception Index from Transparency International
Lack of civil liberties & political rights	Freedom House's annual survey of civil liberties and political rights, from *Freedom in the World 2010* report
Harmony	Harmony from Schwartz (1999)
Egalitarianism	Egalitarianism from Schwartz (1999)
Intellectual autonomy	Intellectual autonomy from Schwartz (1999)
Affective autonomy	Affective autonomy from Schwartz (1999)
Power distance	Power distance index from Hofstede (1980)
Firm Characteristics	
ROA	Earnings before interests / total assets
M/B	Market value of equity / book value of equity
R&D expenses	R&D expenditure / Sales
Assets	Total assets
Closely-held shares	the fraction of shares held by insiders, or by the ten largest shareholders for Japan
Leverage	Total debt / Total assets
Cash/Assets	Cash & due from banks / Total assets
Op. CF/Assets	Funds from operations / Total assets
ADR	An indicator variable that equals 1 if the firm as a traded ADR, and 0 otherwise

Table 1: MSCI IVA sample coverage and overall IVA ratings

This table presents the sample coverage and the descriptive statistics of overall IVA ratings of 6,739 firm-year observations from 2,632 unique firms in 36 countries from 2006 to 2011.

	Number of		Overall IVA ratings				
Country	Firms	Firm-Years	Mean	Median	Std	Min	Max
Developed Countries							
Australia	234	790	3.95	4	1.50	1	7
Austria	13	37	3.92	4	1.79	1	7
Belgium	15	40	3.88	4	1.24	2	7
Canada	145	314	3.98	4	1.65	1	7
Denmark	20	51	4.71	5	1.81	2	7
Finland	28	69	5.01	5	1.61	2	7
France	93	258	4.99	5	1.36	1	7
Germany	53	133	4.77	5	1.60	1	7
Hong Kong	54	145	2.96	3	1.54	1	7
Ireland	16	30	2.97	3	1.71	1	6
Italy	48	119	3.87	4	1.69	1	7
Japan	358	1,005	4.12	4	1.60	1	7
Netherlands	33	77	4.90	5	1.64	2	7
New Zealand	12	19	4.32	4	1.80	1	7
Norway	17	39	4.92	5	1.38	2	7
Singapore	27	73	3.62	3	1.81	1	7
Spain	42	108	4.82	5	1.61	1	7
Sweden	44	112	4.94	5	1.60	1	7
Switzerland	49	118	4.53	5	1.71	1	7
United Kingdom	341	825	4.59	5	1.72	1	7
United States	762	1,987	3.50	3	1.61	1	7
Developed countries	2,404	6,349	4.03	4	1.69	1	7
Emerging countries							
Brazil	25	32	4.41	4	1.50	1	7
Chile	9	17	3.00	3	1.54	1	6
China	19	27	1.93	2	1.00	1	4
Greece	8	22	3.86	4	1.49	2	7
India	25	44	3.23	3	1.54	1	7
Indonesia	8	11	3.09	4	1.38	1	5
Israel	14	18	2.72	2	1.23	1	5
Korea, South	31	55	3.58	4	1.46	1	7
Malaysia	13	24	2.71	3	1.08	1	5
Mexico	10	13	2.15	2	1.21	1	4
Portugal	12	35	4.46	4	1.48	2	7
Russia	23	35	2.89	3	1.37	1	5
South Africa	17	38	4.74	5	1.35	2	7
Thailand	7	10	3.20	3	0.79	2	4
Turkey	7	9	2.44	2	0.88	1	4
Emerging countries	228	390	3.42	3	1.58	1	7
Overall	2,632	6,739	3.99	4	1.69	1	7

Table 2: Industry distribution of firm-year observations in MSCI-IVA

This table presents the industry distribution of 6,739 firm-year observations from 2,632 unique firms in 36 countries from 2006 to 2011.

Industry	# of firm-years	% of firm-years
Advertising	33	0.49
Aerospace & Defense	74	1.1
Air Freight & Logistics	28	0.42
Airlines	58	0.86
Asset Management	125	1.85
Automobiles	140	2.08
BSE	1	0.01
Banks	463	6.87
Beverages	42	0.62
Biotechnology	52	0.77
Broadcasting & Cable TV	117	1.74
Building Products	62	0.92
Casinos & Gaming	27	0.4
Chemicals	196	2.91
Commercial Services & Supplies	128	1.9
Communications Equipment	51	0.76
Computers & Peripherals	59	0.88
Construction	286	4.24
Consumer Finance	42	0.62
Containers & Packaging	32	0.47
Diversified Consumer Services	19	0.28
Diversified Financials	80	1.19
Electric Utilities	237	3.52
Electronic Equipment & Instruments	125	1.85
Energy Equipment & Services	68	1.01
Food Products	121	1.8
Gas Utilities	80	1.19
Healthcare	255	3.78
Hotels	79	1.17
Household	170	2.52
Human Resource & Employment Services	17	0.25
Industrial Conglomerates	77	1.14
Industrial Machinery	130	1.93
Insurance	186	2.76
Integrated Oil & Gas	105	1.56
Investment Banking & Brokerage	34	0.5
Leisure Equipment & Products	34	0.5
Metals & Mining	321	4.76
Movies & Entertainment	20	0.3
Multi-Utilities & Unregulated Power	105	1.56
Oil & Gas Exploration & Production	190	2.82
Oil & Gas Refining & Marketing	43	0.64
Paper & Forest Products	60	0.89
Pharmaceuticals	150	2.23

Professional Services	17	0.25
Public Services	25	0.37
Publishing	81	1.2
Real Estate	385	5.71
Restaurants	31	0.46
Retail	421	6.25
Semiconductor Equipment & Products	129	1.91
Software & IT Services	169	2.51
Steel	99	1.47
Telecommunication	209	3.1
Textiles, Apparel & Luxury Goods	63	0.93
Tobacco	86	1.28
Trading Companies & Distributors	83	1.23
Transportation	219	3.25
Total	6,739	100

Table 3: Descriptive statistics and correlations

Panel A of this table presents the descriptive statistics of 6,739 firm-year observations from 2,632 unique firms in 36 countries from 2006 to 2011. Panel B presents the correlation coefficient of country factors, and * indicates 10% statistical significance level or better.

Panel A: Descriptive statistics

Variable	N	Mean	Median	Std	Min	P25	P75	Max
Firm Characteristics								
IVA rating	6,739	3.99	4.00	1.69	1.00	3.00	5.00	7.00
Average (environmental, social)	6,739	3.95	4.00	1.93	1.00	3.00	500	7.00
Corporate governance	6,739	3.96	4.00	1.53	1.00	3.00	5.00	7.00
Environmental	6,739	3.87	4.00	1.79	1.00	2.00	5.00	7.00
Social	6,739	4.04	4.00	1.72	1.00	3.00	5.00	7.00
Assets (in millions)	6,739	3,590	2,810	2,510	41	1,530	5,170	10,000
ROA	6,739	0.66	0.24	1.02	-0.31	0.09	0.85	5.91
M/B	6,739	2.51	1.79	3.02	-7.52	1.11	3.04	19.67
R&D expenses	6,739	0.00	0.00	0.01	0.00	0.00	0.00	0.04
Leverage	6,739	1.04	0.41	1.30	0.00	0.22	1.56	5.71
Cash/Assets	6,739	0.44	0.30	0.38	0.00	0.09	0.90	1.00
Op. CF/Assets	6,739	0.68	0.28	0.96	-0.15	0.11	0.94	5.83
Closedly held shares	6,739	0.24	0.17	0.23	0.00	0.02	0.40	1.52
ADR	6,739	0.23	0.00	0.42	0.00	0.00	0.00	1.00
Country-Median IVA Ratings								
Emerging countries	15	3.20	3.00	0.94	2.00	2.00	4.00	5.00
Developed countries	21	4.29	4.00	0.78	3.00	4.00	5.00	5.00
All countries	36	3.83	4.00	1.00	2.00	3.00	5.00	5.00
Country Factors								
Ln(GNP per capita)	36	9.98	10.43	1.04	7.06	9.15	10.71	11.35
Absence of corruption	36	6.45	7.10	2.32	2.10	4.15	8.65	9.30
Lack of civil liberties & political rights	36	1.93	1.00	1.44	1.00	1.00	2.50	6.50
Harmony	36	4.06	4.04	0.34	3.28	3.83	4.35	4.62
Egalitarianism	36	4.79	4.87	0.30	4.23	4.51	5.04	5.27
Intellectual autonomy	36	4.51	4.52	0.38	3.85	4.25	4.82	5.32
Affective autonomy	36	3.73	3.73	0.42	2.83	3.44	4.08	4.39
Power distance index	36	52.42	55.50	22.84	11.00	34.50	68.00	104.00

Panel B: Correlation table

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IVA rating	(1)	1							
Ln(Income-per-capita)	(2)	0.56*							
Absence of corruption	(3)	0.46*	0.80*						
Lack of civil liberties & political rights	(4)	-0.64*	-0.76*	-0.63*					
Harmony	(5)	0.48*	0.31*	0.08	-0.42*				
Egalitarianism	(6)	0.57*	0.57*	0.41*	-0.77*	0.68*			
Intellectual autonomy	(7)	0.61*	0.70*	0.49*	-0.70*	0.67*	0.73*		
Affective autonomy	(8)	0.64*	0.72*	0.57*	-0.74*	0.23	0.46*	0.69*	
Power distance index	(10)	-0.49*	-0.71*	-0.68*	0.73*	-0.19	-0.47*	-0.6*	-0.72*

Table 4: Determinants of CSP ratings: Firm characteristics vs country factors

This table presents OLS regression results for the 6,739 sample companies from 36 countries covered in MSCI IVA database. All variables are defined in the Appendix. *p*-values based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively, based on two-tailed tests.

Panel A: Overall CSP ratings

	Overall IVA Ratings			Average (Environmental, Social)		
	(1)	(2)	(3)	(4)	(5)	(6)
ROA	0.048		0.088***	0.045*		0.079***
	(0.111)		(0.003)	(0.093)		(0.002)
M/B	0.002		0.015*	0.005		0.017**
	(0.794)		(0.067)	(0.472)		(0.010)
R&D expenses	5.664		5.038	12.310**		11.661***
	(0.271)		(0.287)	(0.013)		(0.008)
Ln(Assets)	0.167***		0.419***	0.185***		0.416***
	(0.000)		(0.000)	(0.000)		(0.000)
Closely-held shares	-0.461***		-0.336***	-0.502***		-0.360***
	(0.000)		(0.010)	(0.000)		(0.003)
Leverage	0.066**		0.102***	0.055**		0.090***
	(0.012)		(0.000)	(0.019)		(0.000)
Cash/Assets	0.105		0.525***	0.185**		0.572***
	(0.275)		(0.000)	(0.032)		(0.000)
Op. CF/Assets	-0.014		0.092***	-0.010		0.088***
	(0.698)		(0.007)	(0.768)		(0.004)
ADR	0.757***		0.368***	0.722***		0.372***
	(0.000)		(0.000)	(0.000)		(0.000)
Constant	2.317***	3.391***	0.194	2.046***	3.352***	0.077
	(0.000)	(0.000)	(0.713)	(0.000)	(0.000)	(0.860)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	No	Yes	Yes	No	Yes	Yes
Observations	6,739	6,739	6,739	6,739	6,739	6,739
Adj. R-squared	0.067	0.134	0.186	0.080	0.140	0.203

Panel B: Separate CSP ratings

	Corporate Governance			Environmental			Social		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
ROA	-0.057*		0.071**	0.067**		0.095***	0.023		0.064**
	(0.082)		(0.019)	(0.035)		(0.002)	(0.454)		(0.032)
M/B	0.030***		0.018**	-0.000		0.014*	0.011		0.021**
	(0.001)		(0.048)	(0.983)		(0.057)	(0.203)		(0.011)
R&D expenses	-10.125*		-1.642	18.301***		16.816***	6.319		6.506
	(0.073)		(0.761)	(0.003)		(0.002)	(0.199)		(0.157)
Ln(Assets)	0.053		0.343***	0.268***		0.493***	0.101***		0.339***
	(0.131)		(0.000)	(0.000)		(0.000)	(0.004)		(0.000)
Closely-held shares	-1.542***		-0.927***	-0.459***		-0.310**	-0.546***		-0.409***
	(0.000)		(0.000)	(0.000)		(0.021)	(0.000)		(0.002)
Leverage	0.068**		0.077***	0.051*		0.088***	0.059**		0.092***
	(0.014)		(0.002)	(0.060)		(0.001)	(0.019)		(0.000)
Cash/Assets	-0.571***		0.168*	0.412***		0.771***	-0.041		0.373***
	(0.000)		(0.077)	(0.000)		(0.000)	(0.657)		(0.000)
Op. CF/Assets	-0.055		0.060	0.025		0.123***	-0.044		0.054
	(0.162)		(0.111)	(0.503)		(0.000)	(0.222)		(0.130)
ADR	0.470***		0.276***	0.825***		0.481***	0.619***		0.264***
	(0.000)		(0.000)	(0.000)		(0.000)	(0.000)		(0.000)
Constant	5.842***	6.075***	3.843***	1.292***	3.298***	-0.678	2.799***	3.407***	0.833*
	(0.000)	(0.000)	(0.000)	(0.006)	(0.000)	(0.130)	(0.000)	(0.000)	(0.097)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Observations	6,739	6,739	6,739	6,739	6,739	6,739	6,739	6,739	6,739
Adj. R-squared	0.106	0.179	0.206	0.099	0.126	0.197	0.054	0.115	0.146

Table 5: Determinants of overall IVA ratings

This table presents OLS regression results for the sample of 36 countries covered in MSCI IVA database. The dependent variable in all regression models is the country-median value of overall IVA rating. Column 2 reports the name of the independent variable in the regression. Column 3 and 4 present results from regressions of country-median IVA on each raw independent variable. Columns 5 and 6 present results from regressions of country-median IVA on each orthogonalized independent variable w.r.t. *Ln(Income-per-capita)*. We report the regression coefficient on the independent variable and the associated *p*-values in columns 3 and 5, and the adjusted R-squared in columns 4 and 6. In model (9), we include all the raw independent variables in one regression. In model (10), we include additional country factors that are in Ioannou and Serafeim's (2012), including competition and regulation, anti-self dealing index, left ideology, union density, and the availability of skilled labor. To conserve space, for models (9) and (10) we omit the coefficients and associated *p*-values and only report the adj. *R*-squared. *, **, and *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively, based on two-tailed tests.

Independent variables are		Raw		Orthogonalized	
Model	Independent variable	Coeffi. (*p*-value)	Adj. R-squared	Coeffi. (*p*-value)	Adj. R-squared
(1)	Ln(Income-per-capita)	0.482***	0.231		
		(0.002)			
(2)	Absence of corruption	0.201***	0.195	0.077	-0.018
		(0.004)		(0.481)	
(3)	Lack of civil liberties & political rights	-0.423***	0.355	-0.335***	0.123
		(0.000)		(0.007)	
(4)	Harmony	1.339***	0.189	1.017**	0.087
		(0.005)		(0.021)	
(5)	Egalitarianism	1.700***	0.236	1.057	0.032
		(0.002)		(0.100)	
(6)	Intellectual autonomy	1.511***	0.307	1.132**	0.069
		(0.000)		(0.035)	
(7)	Affective autonomy	1.522***	0.387	1.255***	0.147
		(0.000)		(0.004)	
(8)	Power distance index	-0.019***	0.165	-0.008	-0.010
		(0.008)		(0.363)	
(9)	Overall fit (include all indep. var.)		0.491		
(10)	Overall fit (including additional indep. var. from Ioannou and Serafeim (2012))		0.463		

Table 6: Comparing multinational firms with non-multinational firms

This table reports OLS regression results from 5,090 companies, 2,857 multinationals and 2,233 non-multinationals, from 36 countries covered in MSCI IVA database. In any year, a firm is classified as a multinational company if at least 10% of its total assets are foreign assets. The dependent variable is overall IVA ratings. Columns (1) to (3) present results using the subsample of multinationals, and columns (4) to (6) present results using the subsample of non-multinationals. All variables are defined in the Appendix. *p*-values based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively, based on two-tailed tests.

	Multinationals			Non-Multinationals		
	(1)	(2)	(3)	(4)	(5)	(6)
ROA	0.020		0.037	0.054		0.074
	(0.629)		(0.360)	(0.375)		(0.251)
M/B	0.018		0.026*	-0.012		0.001
	(0.255)		(0.088)	(0.352)		(0.963)
R&D expenses	9.107		5.677	-2.504		1.840
	(0.207)		(0.409)	(0.793)		(0.845)
Ln(Assets)	0.347***		0.533***	-0.044		0.305***
	(0.000)		(0.000)	(0.446)		(0.000)
Closely-held shares	-0.654***		-0.455**	-0.139		-0.364*
	(0.001)		(0.017)	(0.470)		(0.086)
Leverage	0.166***		0.161***	-0.068*		0.022
	(0.000)		(0.000)	(0.097)		(0.592)
Cash/Assets	0.114		0.531***	-0.053		0.440***
	(0.417)		(0.000)	(0.734)		(0.005)
Op. CF/Assets	-0.022		0.066	0.172**		0.275***
	(0.690)		(0.188)	(0.011)		(0.000)
ADR	0.701***		0.486***	0.669***		0.188
	(0.000)		(0.000)	(0.000)		(0.218)
Constant	0.536	3.055***	-1.029	2.510**	2.744***	0.414
	(0.511)	(0.000)	(0.187)	(0.011)	(0.000)	(0.632)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	No	Yes	Yes	No	Yes	Yes
Observations	2,857	2,857	2,857	2,233	2,233	2,233
Adj. R-squared	0.104	0.136	0.204	0.067	0.154	0.193

Table 7: Comparing cross-listed firms with pure domestic firms

This table reports OLS regression results from 6,739 firm-year observations, 1,514 cross-listed and 5,225 non cross-listed, from 36 countries covered in MSCI IVA database. In any year, a firm is classified as cross-listed if its common shares are listed on one or more foreign stock exchanges in addition to its domestic exchange in that year. The dependent variable is overall IVA ratings. Columns (1) to (3) present results using the subsample of cross-listed firms, and columns (4) to (6) present results using the subsample of non-cross-listed firms. All variables are defined in the Appendix. *p*-values based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively, based on two-tailed tests.

	Cross-listed firms			Non-cross-listed firms		
	(1)	(2)	(3)	(4)	(5)	(6)
ROA	0.089		0.133**	0.049		0.075**
	(0.162)		(0.026)	(0.146)		(0.021)
M/B	-0.005		0.007	-0.007		0.011
	(0.840)		(0.771)	(0.412)		(0.175)
R&D expenses	21.555		22.404*	5.682		3.086
	(0.131)		(0.098)	(0.265)		(0.523)
Ln(Assets)	0.468***		0.680***	0.117***		0.395***
	(0.000)		(0.000)	(0.003)		(0.000)
Closely-held shares	-0.632**		-0.243	-0.235*		-0.402***
	(0.015)		(0.394)	(0.076)		(0.003)
Leverage	0.130**		0.152***	0.046		0.116***
	(0.014)		(0.002)	(0.113)		(0.000)
Cash/Assets	0.329*		0.540***	0.082		0.464***
	(0.089)		(0.004)	(0.441)		(0.000)
Op. CF/Assets	-0.006		0.088	-0.005		0.076**
	(0.928)		(0.165)	(0.901)		(0.046)
Constant	0.949	4.841***	-0.903	2.591***	3.346***	0.354
	(0.474)	(0.000)	(0.501)	(0.000)	(0.000)	(0.492)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	No	Yes	Yes	No	Yes	Yes
Observations	1,514	1,514	1,514	5,225	5,225	5,225
Adj. R-squared	0.098	0.157	0.208	0.037	0.138	0.171

Table 8: Alternative measures of CSP – Principal Component Analysis

This table presents results with our alternative CSP measure. Panel A reports the loadings for each IVA subcategories. In Panel B, we report results from panel regressions that are similar to Table 4. The dependent variable is *IVA_PCA*, the first principal component of all subcategories. In Panel C, we report results from country-median regressions that are similar to those in Table 5. The dependent variable is the median values of the first principal component across all firm-years for each country. All variables are defined in the Appendix. *p*-values based on standard errors clustered at the firm level are reported in parentheses. *, **, and *** denote statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively, based on two-tailed tests.

Panel A: Principal component loading for IVA subcategories

Subcategories	Loading
Strategic Governance	0.4272
Human Capital	0.3464
Stakeholder Capital	0.4028
Products and Services	0.3519
Emerging Markets	0.2600
Environmental Risk Factors	0.0081
Environmental Management Capacity	0.4376
Environmental Opportunity Factors	0.3904
Eigenvalue	3.2667
Proportion explained	0.4083

Panel B: Panel regressions

	Dep. variable is the *IVA_PCA*		
	(1)	(2)	(3)
ROA	0.145***		0.220***
	(0.009)		(0.000)
M/B	-0.004		0.021
	(0.770)		(0.133)
R&D expenses	13.989		13.138
	(0.198)		(0.194)
Ln(Assets)	0.357***		0.816***
	(0.000)		(0.000)
Closely-held shares	-1.485***		-0.956***
	(0.000)		(0.000)
Leverage	0.106**		0.165***
	(0.027)		(0.000)
Cash/Assets	0.459***		1.272***
	(0.007)		(0.000)
Op. CF/Assets	-0.061		0.138**
	(0.372)		(0.031)
ADR	1.459***		0.831***
	(0.000)		(0.000)
Constant	9.695***	11.758***	5.573***
	(0.000)	(0.000)	(0.000)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Country FE	No	Yes	Yes
Observations	6,739	6,739	6,739
Adj. R-squared	0.115	0.165	0.226

Panel C: Country-median regressions

Independent variables are		Raw		Orthogonalized	
Model	Independent variable	Coefficient (*p*-value)	Adj. R-squared	Coefficient (*p*-value)	Adj. R-squared
(1)	Ln(Income-per-capita)	1.150*** (0.000)	0.424		
(2)	Absence of corruption	0.468*** (0.000)	0.342	0.149 (0.379)	-0.016
(3)	Lack of civil liberties & political rights	-0.804*** (0.000)	0.396	-0.475** (0.016)	0.064
(4)	Harmony	1.571* (0.076)	0.063	0.673 (0.344)	-0.014
(5)	Egalitarianism	3.194*** (0.001)	0.258	1.081 (0.288)	-0.010
(6)	Intellectual autonomy	2.903*** (0.000)	0.351	1.360 (0.110)	0.014
(7)	Affective autonomy	3.262*** (0.000)	0.556	2.406*** (0.000)	0.169
(8)	Power distance index	-0.048*** (0.000)	0.349	-0.024* (0.079)	0.023
(9)	Overall fit (include all indep. var.)		0.563		

Figure 1: CSP and Income-per-capita